

Prepared Statement
Of
Ed McMullen
President
South Carolina Policy Council

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and International Security

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Thank you for the opportunity to speak to you today. My name is Ed McMullen, and I am president of the South Carolina Policy Council, a non-profit, non-partisan public policy research organization. I am here to present an overview of the innovative solutions that are being proposed to improve Medicaid in our state.

There is no question that Medicaid must be reformed. It already consumes 20 percent of the state budget – that is up 10 percent from 1995. By the year 2015, Medicaid costs are projected to consume 30 percent of the state budget. That is a growth rate that cannot be sustained.

In addition, the federal government will likely change the way it sends dollars to states. One plan proposes block grants instead of matching funds for states. Such a system would provide greater stability for states, and take away the perverse incentive for them to “spend more tax dollars to get more tax dollars.” Our state would ultimately benefit from the change, because the current matching formula is based on a system that compares our state’s per capita income to the US average, and that means as our economy grows, our matching funds will decrease. Already, South Carolina’s federal matching ratio for Fiscal Year 2006 is 3.5 percentage points lower than it was in Fiscal Year 2004. In the long run, economic growth will shrink Medicaid rolls, but not in time to stem the massive growth in the program. Fortunately, there is progress toward reform in our state. The new waiver proposed by Governor Sanford is an innovative, market-based plan to provide quality health care to patients that is affordable to taxpayers.

You have heard about that plan today to provide Personal Health Accounts, or PHA’s, for Medicaid patients. PHA’s would offer greater access to quality care, allow patients to choose their doctors, decrease the number of emergency room visits through

preventative care and empower special needs populations with more choices.

Special needs populations especially need choices because they often have less flexibility in their health care. For example, South Carolina ranks fourth in the nation for prevalence of diagnosed diabetes. Under the PHA proposal, those patients could choose the managed care option and select providers who offer the type of specialized care they need. This approach will encourage managed care organizations to offer packages that are tailored to these patients. In addition, both consumers and providers are offered incentives to choose and offer quality health care. Examples include bonus payments to outstanding providers, and financial incentives for healthy patient behavior.

There are some incorrect assumptions about the PHA's, particularly regarding children. Some claim this plan would drastically cut services to children. That is absolutely untrue. In fact, a PHA plan would offer children much-needed preventative and primary care as opposed to the drastic emergency room care that Medicaid patients often choose today. For example, parents of special needs children could choose a primary care management option. The provider would approve and monitor all care for a small monthly fee, providing patients with focused care coordination and expert advice based on personal case knowledge. That type of approach has brought about improved care and a decrease in hospital time for non-intensive care for these children. We know that Health Savings Accounts work in the private sector, resulting in decreased premiums and lower out-of-pocket expenditures. There is also research on other plans that provide more choices to those on government assistance. In states such as Arkansas, Florida and New Jersey, participation among elderly and disabled populations show high rates of satisfaction – as high as 90 percent. Clearly, these consumers are receiving high quality care,

and they also believe it is an improvement over their previous plans.

It is important that this plan have the support of the private sector. Fortunately, companies in South Carolina -- including one managed care company that currently serves 60,000 Medicaid patients -- indicate they are eager to participate in the proposed plan.

Health care companies support the plan. Consumers indicate their preference for more choices, not just in other states but here in South Carolina, where the managed care program for Medicaid receives high marks from patients. And physicians have long argued for the need for comprehensive primary care, which this plan will allow. So who opposes the PHA plan? Frankly, the self-described “advocates” who argued against welfare reform in our state. Those who fought that change in the 90’s made some of the same arguments, including that the children would suffer. Those dire predictions have simply not come true. A 2001 study for the South Carolina Department of Social Services found that of those who left welfare because they were earning money through new or better jobs, 75% were still employed a year later. Only 10 percent of all those leaving welfare believed their children suffered after leaving the program. A subsequent study in 2003 found that 65 percent of all who had left the welfare rolls were working 40 hours a week or more, and only 5 percent of them felt that leaving welfare created such a hardship that they were forced to put their children in someone else’s care.

In spite of the doom-and-gloom scenarios, welfare reform is a success in our state. Furthermore, the Department of Social Services has become more efficient. And as the Post and Courier reported, “South Carolina has been among the national leaders in cutting welfare rolls, earning ‘high performance’ federal bonuses in the process.”

We have to create that kind of positive change in South Carolina's Medicaid program. Neither patients nor taxpayers can afford the cost of the status quo. Medicaid patients deserve high quality care, and they should be able to choose it themselves. They should not have to rely on overwhelmed emergency rooms that cannot possibly serve them as well as their own doctor could. Medicaid patients are every bit as capable as other consumers when it comes to making informed decisions for themselves and their families. They must be given the opportunity to do that. The proposed waiver plan is patient-centered, and it is based on successful approaches to health care. It is also cost effective, but most importantly, it is a step toward higher quality health care for those who are often denied the best available services. Such innovation deserves a chance in South Carolina.